



## SUMMARY

DISCOUNTING STRATEGIES

COMMERCIAL INCOME

IMPLEMENTATION

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Today, mainstream consumers demand more and better interactions with cultural content, experiences and organisations. Museums have a unique opportunity to supply this demand; in the process creating new income streams and leveraging their cultural assets more effectively.

Discounted tickets for families represent a major opportunity for museums to develop **new creative business models that can result in more visitors as well as more income from existing visitors**. With the right commercial models in place, families can become additional, life-long supporters, ambassadors, visitors and patrons for a museum.

Like all great cultural entrepreneurship, responding to the opportunities presented by families involves **identifying and systematically understanding their wants and desires as leisure consumers, and enhancing or adding new layers to the quality of their experience**.

**Listening to families is the *only* starting point: consumer research is the lifeblood of successful organisations**. To this end, the Kids in Museums research states clearly what families want: consistency, simplicity, clarity, plus flexibility for different ages, extended families and single parent families. These requirements can be reconciled with commercial objectives, thanks to significant new opportunities created by marketing to families.



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## INTRODUCTION

CultureLabel has been commissioned to explore some of the commercial considerations arising from the introduction of flexible family tickets in the UK museums and cultural sectors.

A feast of commercial opportunities, plus likely difficulties ahead in both public funding and private investment, places **growing importance on the role of commercial income for museums**. Ticket sales have long been a significant proportion of this, alongside revenues from ancillary services such as catering, retail, publishing and content distribution.

Flexible ticket pricing for families is, simply, a discount. Discounts are an interesting promotional tool for the marketing professional, and there are a multitude of options when considering how best to deploy and optimise them for maximum impact on visitor numbers and commercial income.

**The best news is that we don't need to reinvent the wheel.** The strategies and considerations pertinent to the discussions in the cultural sector have already often been explored and refined by other sectors.

In this analysis, we therefore focus specifically on the lessons emerging beyond the cultural sector, as reference cases for what we could likewise achieve here through innovative strategies in pricing and promotions.



## DISCOUNTING STRATEGIES: REQUIRED UPLIFT (1)

Central to a discounting strategy is the uplift in sales required for income to stand-still or break even:

- As a basic example, an adult ticket is £10 and a child ticket is £6. A family ticket for 2 adults and 2 children sells at £30. The saving for the family on the standard price is therefore £2, or a 6.25% discount. For the museum to stand still in its income, the required uplift in sales of adult tickets is 20%, or 33.3% uplift in sales of child tickets.
- **As a rule of thumb, the number of new visitors that result from creating an attractive discount offer can provide an uplift in sales volume of 20-25%**, as long as the offer is marketed effectively.
- Initially, the promotional price should always be measured against the baseline price rather than other promotional prices. For example, to determine the required uplift, a ticket for 2 adults and 3 children should be measured against the full price of these tickets rather than the preceding promotional price for 2 adults and 2 children. Only once this has been determined, and the best combinations identified, can the comparison against different promotional prices can be used to determine the best terms of the offer.

	ADULT	CHILD	INCOME
NORMAL PRICE	£10 x 2 = £20	£6 x 2 = £12	£32
PROMO PRICE			£30
			<hr/>
			£2
			= 20% EXTRA ADULT TICKETS
			= 33.3% EXTRA CHILD TICKETS

## **DISCOUNTING STRATEGIES: REQUIRED UPLIFT (2)**

Whilst the preceding points use 'income' as the measure, gross margin would provide a more accurate measure in the instances where adult, child and family tickets have different variable costs attached to service fulfilment.

The required uplift is therefore determined by several variables:

- the full ticket price for adults and children, which is assumed to be immovable;
- the terms of the promotional price (including number of adults and children, frequency of visits, etc.), which determines the discount provided for visitors;
- the level of the promotional price, which also determines the discount for visitors.

Having established the basic variables, we will investigate each of the latter two in turn to explore potentially adaptable innovations from other sectors.

## DISCOUNTING STRATEGIES: EXTRA VISITORS

Some of the required uplift can be anticipated through the increase in visitor numbers resulting from the introduction of a flexible family ticket.

Marketing to families represents an efficient investment of limited budgets: **marketing to one person in the family has the potential to result in four or five visitors.** Furthermore, it is probable that children who visit a museum are likely to return at least two or three times during their different life stages: perhaps on a school visit; with their own families when older; and with their grandchildren when retired. This represents **good lifetime value for that initial marketing investment.**

Critical to evaluating the impact of ticketing policies is to collect relevant data before and after the introduction of a new promotion. Yet, with people's natural reluctance to hand over personal information, capturing the data in the first place is an art form in itself. The maxim 'collect only what you need, use all that you collect' rings true for data capture strategies; a staged approach to capturing details of their lifestyle across multiple touchpoints, online and off, is recommended.

As a minimum, it is essential to create systems for recording the number of adults and children admitted under a family ticket, to provide accurate data to assess its impact and true cost/benefit.



## DISCOUNTING STRATEGIES: DISCOUNT LEVELS

Whilst economics may drive the level at which we set our ticket prices, psychology often drives the decision-making of the consumer, especially where discounts are concerned. Professionals responsible for setting promotional pricing strategies should therefore be familiar with some of the lessons from the broader retail sector in order to help the design of offers.

First, how can we best 'frame' discounts? As consumers, we constantly compare: prices, features, benefits, functions, and so on. Comparing value is a similar process, that is, **Price A is always compared against Prices B and C, and rarely considered in isolation**. One surprising aspect of this is reported by Dan Ariely, from a series of consumer tests: when presented with a low, middle and high price option, consumers almost invariably choose the middle option – the second-most expensive. Likewise, when presented with a choice of three offerings – A, -A (defective A), or B – consumers always choose A since -A is defective in the comparison with A, whereas B has no like-for-like comparison so is avoided.

As a second consideration, taking the above principle to an extreme, the ultimate relative price is free, which has been found to have a major gravitational pull on consumers. However, for museums looking to generate income, it is important to consider this a promotional means rather than an end in itself. For Amazon bookstore, by way of example, free shipping is used to entice shoppers to spend more on books than they would normally otherwise do. **Similar lessons can be applied to 'free' offers in the museum space to drive volume, providing alternative sales opportunities are available to leverage income elsewhere.**

Similarly, the loss aversion effect in behavioural economics states that we take great pains to avoid losses. That is, we are more likely to give up gains than accept losses. As an example, if paying by credit card was explained as 2% more expensive than paying by cash, the customer may be considered more likely to pay by cash. If the same situation was framed as a 2% discount for paying by cash, the customer is more likely to pay by card, rationalising that it is a small price to pay for convenience.

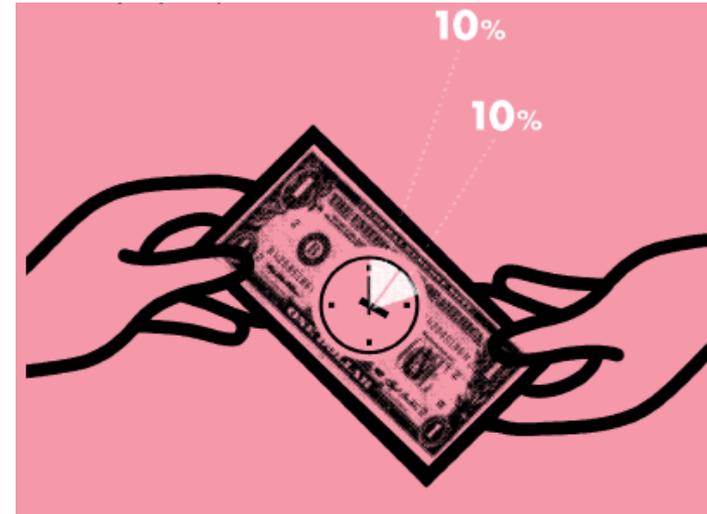
These preceding examples are intended as illustrations to show the **importance of understanding consumer psychology when designing promotional pricing strategies, over and above economic rationale**. The level of discount isn't necessarily a straightforward proposition considered in isolation: the **framing** of this promotional price, **relative** to like-for-like prices and other alternatives, plays a critical role in its sales success and, in turn, providing the necessary uplift in income to accommodate a discounting strategy.

## DISCOUNTING STRATEGIES: SCOPE OF PROMOTIONS

The standard model for a family ticket is one of quantity discount, that is, a discount directly related to the number of visitors. Additional models also worth considering revolve around the premise of **driving multiple purchases to offset the discount of the original visit:**

- **Quantity discount related to the number of visits** – front-loading income for museums through multi-purchasing. For example, a promotional discount applies to the purchase of 10 adult tickets and 10 child tickets, which can be used within a longer period to encourage repeat visits.
- **Cumulative quantity discounts** – a promotional discount that increases as the cumulative quantity increases. This may be most effective when applied to the number of visits; encouraging visitors who purchase many tickets over time through repeat visits but who do not buy many tickets in one go.

In both of these cases, the result is to offset the discount for the original visit with the uplift in sales volume as a result of driving multiple purchases.



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## COMMERCIAL INCOME

The pricing strategies we have identified so far all focus on balancing the cost of discounting with a sales uplift in visitor numbers, either through new visitor sales or an increase in the frequency of visits from existing users.

Our attention now turns to two alternative but complementary sources of revenue growth: **maximising spend from existing visitors through ancillary sales**, and creating **bespoke products or services for families** to offer as premium opportunities for generating new income.



## COMMERCIAL INCOME: ANCILLARY SALES

The dual pressures of curatorial integrity and commercial income means that income generation within the cultural sector has distinct requirements compared with other industries. The balance between curatorial and commercial objectives is a delicate one, although should be totally complementary when approached innovatively from a consumer-centric perspective. Cultural integrity gives a museum purpose. Commercial expertise makes it enjoyable and accessible to experience.

CultureLabel has previously authored a 'hands-on' guide around commercial income generation for museums and arts organisations, *'Intelligent Naivety'*, as part of the MLA/Renaissance 'Entrepreneurial Museum' project. This is available to download as a free e-book from [www.CultureLabel.com/digital-museum/](http://www.CultureLabel.com/digital-museum/)

By growing commercial income through ancillary sales, museums can further accommodate ticketing discounts. This presents a complementary alternative to simply relying on increased numbers of visits. Most commonly, **up-selling involves buying a premium version of what you're already ordering whilst cross-selling involves buying an additional product or service that complements your purchase**. For a museum, it could be discounting an exhibition catalogue, an umbrella for outdoor events, a meal in the restaurant, or access to a premium exhibit.

Comparable sectors continually deploy cross- and up-selling strategies to offset discounted ticket prices, for example:

- **Commercial leisure** – The Merlin Annual Pass, encompassing attractions such as LegoLand, Alton Towers and Warwick Castle, is marketed through a range of discounts on ancillary sales, all designed to encourage cross- and up-sales. It includes 20% off eating, shopping, and a PhotoPass at all attractions, plus discounted overnight stays at resort hotels. Furthermore, they offer discounts from 3<sup>rd</sup> party providers, providing commission to Merlin as a further revenue source.
- **Airlines** – Museums and Easyjet may appear to have little in common. Yet, under the surface, the model of discounted airlines is one well worth noting. **Their income does not primarily originate from tickets; instead they profitably trade in ancillary services to the large numbers of users attracted precisely by the low entry cost**. From travel insurance and hotels, through car rental and gifts, few opportunities to monetise their captive audiences are missed.

Dinner and show packages, newspaper subscriber clubs such as Times+... Cross- and up-selling is proven to work across many industries, providing the products or services available are **relevant and appealing to the customer involved**. The gross margin arising from the sale of ancillary products and services accommodates the discount from both ticket price and special offer on that service.

## COMMERCIAL INCOME: FREQUENT USERS

Complex modelling of promotions, particularly those relating to cumulative quantity discounts, can be efficiently facilitated with the right customer data systems. Whilst the expenditure and complexity underpinning the Tesco Clubcard network is beyond the reach of most, the principles and even the technology aren't.

In Tesco's model, every time a Clubcard is used a copy of the store shopped in, products purchased and price paid are stored against the user's account. Users are also asked to provide personal information such as name, address and children. By analysing shopping preferences on an individual basis, achieved through advanced computer modelling, the store is able to issue promotional vouchers that: **(a) encourage additional or repeat purchases, over and above the expected baseline; (b) are tailored to the individual; and (c) as a result, encourage loyalty in a fiercely competitive industry segment.**

How can these principles be applied to museum visitors, especially families? At the most basic level, these processes can be manually deployed:

- record visitor details, including personal information, and update records on each visit (note that the collection of this is best achieved through a staged approach as the visitor becomes more familiar with the organisation);
- split individual visitors into niche groups or subsets that display common habits. For example, one group of families may attend fortnightly on a Saturday afternoon for an hour, or another group may attend once a year during the summer vacation;
- devise promotional pricing designed to appeal to the characteristics of that group. The Saturday visitors, for example, may be enticed with a discounted weekend pass or a quantity discount relating to number of visits, for example, whereas the vacationers may be enticed with a cumulative quantity discount to reflect the lower frequency of visit, or with ancillary offers during the week they are in the vicinity.

## COMMERCIAL INCOME: NICHE MARKETS

Beyond promotional pricing for existing experiences, products and services, an increasing number of providers are specially creating **niche services deliberately marketed at a defined market segment** – in this case, families. Although establishing such facilities may require specific resource allocation, the outcomes are to (1) attract new visitors within that demographic and to (2) create another marketable ancillary service to create additional gross margins to offset the cost of promotional pricing.

By way of example from the cultural sector, the success of Friday Night Lates at the V&A and other out-of-hours cultural experiences caught the imagination of time-poor consumers belonging to a 25-34 urban demographic. Spotting this trend, the Lates.org platform therefore aggregated the programmes of all of the galleries offering evening events and has developed a clear brand identity targeted at this hard to reach demographic. **This in turn has attracted the sponsorship of brands such as Apple and Sony, who in turn are targeting the same user profile.** Similarly, in the festival space, Camp Bestival was developed as a “baby sister festival” to the successful Bestival, targeted specifically at families wishing to recreate “the 1950s British Holiday Camp with a twist”. Camp Bestival provides an additional revenue source for the Bestival team whilst its **production benefits from existing economies of scale.**

Museums could target families through similarly targeted services. This could mirror the above Lates example directly, linking museums together to create a network of family-friendly venues accessible through one ticket; or it could involve providing free return visits within a 12 month period to encourage repeat visits; or providing a discount card to children on school trips to entice them back with their families.

Tiered access or services also presents a unique opportunity to develop products and services focussed at the family demographic. In all of these cases, the goal is to create new revenue-generating products and services that can be sold alongside promotional tickets to provide the required uplift in income, allowing the total gross margin to accommodate the discounts offered.

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## IMPLEMENTATION: AGGREGATION

Aggregating assets from multiple museums and arts organisations creates an offer with more noise in the consumer marketplace, which in turn can attract wider interest and uptake. **The network effect ultimately delivers a clearer message in a cluttered consumer environment, whilst the economies of scale involved invariably cut costs for each of the participating players.** This effect can already be clearly witnessed through the CultureLabel.com platform, where over 85 UK museums and arts organisations have united to retail their cultural products online. The resulting noise in the consumer marketplace is testament to the benefit of approaching common challenges together.

The success of this online retail platform has led to CultureLabel exploring further economies of scale through the deployment of technology across multiple partners within the network. This includes areas such as mobile apps, e-publishing, e-commerce and e-ticketing amongst others. This isn't simply mentioned as an advert for CultureLabel's activities: rather, it's intended to highlight another way of working, where **shared resources and lateral approaches overcome barriers to entrepreneurial endeavour.**

How far can these new models of working go? In the above case, CultureLabel invests upfront in the technical development, enabling the shared technology to be provided to organisations for a very low cost. This drastically reduces, and often eliminates, many of the capital costs associated with deploying new technologies.

The opportunities for aggregated working within the cultural sector are immense, limited only by entrepreneurial vision. That's what makes it so exciting, and such an important tool for enabling the rich family experiences of the future.

## IMPLEMENTATION: TECHNOLOGY

The role of technology is critical in this discussion. Digital ticketing solutions, such as the one developed by CultureLabel, can overlay or replace existing ticketing systems to provide instant ticket sales direct to mobile phones or email. A digital system places advanced functionality in the marketer's hands, enabling the delivery of the strategies outlined in this report:

- **Collect and manage customer data** – a digital ticketing system usefully facilitates the process of collecting data about visitors and their preferences, updated on an ongoing basis. This instantly provides a useful database to begin designing tailored promotional pricing;
- **Facilitates cross- and up-selling** – with the immediacy of digital communications involved, visitors can be prompted to purchase a range of ancillary and complementary products before, during and after the activity. Before the event, for example, you could be asking questions like: "Need a hotel nearby?", "Do you want to book parking in advance?", "If you like this, you'll love that..". Thanks to the digital nature of the relationship, promotions can run right up to the start of the event and beyond: bring a friend, upgrade to first class, half-price programmes, etc.
- **Aggregated offers** – one other benefit of digital ticketing is the range of offers that can be delivered across participating organisations, similar to the Merlin Annual Pass as detailed above. Through the instant nature of digital technology, and as a result of the shared database underpinning the operation, users could for example buy a family ticket which can be redeemed at up to 60 participating organisations. Such marketing strategies place consumers at the centre, enabling clear messaging and widespread promotion. In this example, the museum that scans the ticket on entry could receive the payment, or it could be divided between all organisations on a pre-determined formula.

The opportunities for deploying innovative promotional strategies are immense for museums that embrace flexible family tickets, providing they form one aspect of a broader pricing strategy with the net objective of raising commercial gross margins overall.

The opportunities are further magnified when digital ticketing technology is deployed to facilitate cross- and up-selling as well as personalisation. The significant opportunities to benefit from the network effect of aggregation, and the economies of scale this provides, are also well worth considering as we further investigate the feasibility of flexible family tickets.

## RECAP

- There's no need to reinvent the wheel – look to other industries for excellent guidance
- Listening and responding to family requirements provides new opportunities to:
  - Attract new visitors, from existing services and from new, specially-targeted ones
  - Generate more commercial income from existing visitors
- The cost of flexible family tickets can be met either through increased ticket sales or ancillary services
- Pricing needs to be considered holistically, cross-fertilising discounts on tickets and discounts on ancillary services
- Discounts are a strategic tool that can be used to great effect to generate commercial income elsewhere in the museum, or over a longer-term
- An aggregated approach saves money and creates a much louder noise in the saturated consumer marketplace
- Digital ticketing technology makes advanced discounting strategies much easier to deploy
- Those who choose to engage, creating innovative solutions to supplying this substantial demand, are best placed for long-term economic and cultural sustainability

